

October 3, 2001

Mr. Michael K. Powell
Chairman
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20024

Re: Multi-Association Group Plan for Regulation of Interstate Services of Non-Price
Cap Incumbent Local Exchange Carriers and Inter-Exchange Carriers, CC Docket
No. 00-256

Dear Mr. Powell:

I appreciate the Commission's willingness to work with the states as the Commission considers the Multi-Association Group's (MAG) proposal that seeks the adoption of a proposal to reform access charges and universal service support for incumbent local exchange carriers (LEC) subject to rate of return regulation (non-price cap carriers).

As the California Public Utilities Commission (CPUC) stated in our previously filed comments and reply comments in the above-referenced docket (see the attached CPUC Comments, Reply Comments, and Motion to File Late), California recommends that the Commission reject the MAG proposal, take steps to base universal service support to rural LECs on forward-looking cost, and eliminate the National Exchange Carrier Association (NECA) pooling system. California expresses concerns regarding numerous aspects of the MAG proposal. Taken together, these positions would increase rural LEC earnings at the expense of consumers, particularly consumers in states, like California, that are net contributors to universal service funds, and increase universal service funding significantly while shielding the rural LECs from risk and providing little incentive to operate more efficiently or invest wisely.

Specifically, the CPUC has expressed concerns regarding:

- The failure of the MAG proposal to structure universal support based on forward-looking costs. (Comments, pp. 1-2, 8-10; Reply Comments, pp. 1-5.)
- The unjustified recovery of access revenues through universal service funding. (Comments, pp. 19-20.)
- The improper perpetuation of the NECA pooling system. (Comments, pp. 3, 9.)
- Possible restrictions on portability of universal service support. (Comments, pp. 19-20.)
- The removal of caps on universal service support. (Comments, pp. 3-4, 6-8, 16-17.)
- Inclusion of unrelated costs in universal service funding. (Comments, p. 8.)
- Unjustified annual increases in universal service funding. (Comments, p. 15.)
- An overly-generous low-end adjustment. (Comments, pp. 3, 6-8, 10-12.)
- Excessive deaveraging of subscriber line charges (SLCs) and universal service support. (Comments, pp. 12, 13; Reply Comments, p. 11.)
- Elimination of important merger/acquisition safeguards. In its initial comments, California also identified various modifications that would be needed to minimize the adverse impacts of the MAG proposal if the Federal Communications Commission (FCC) adopts some or all of it. (Comments, pp. 24-26.)

If the Commission nevertheless concludes that aspects of the MAG proposal have merit, California urges that the FCC adopt the following modifications:

- Continuation of the cap on universal service funding. (Comments, pp. 6-8, 16-17; Reply Comments, pp. 10-11.)
- Exclusion from universal service funding of special access services, regulatory obligations, non-primary residential and business lines, and any other services and costs not associated with the cost of providing universal service. (Comments, pp. 8-9, 14-15; Reply Comments, pp. 8-10.)
- Inclusion of a productivity adjustment in the incentive regulation mechanism. (Comments, pp. 3, 21-22; Reply Comments, pp. 12-13.)
- Elimination of the low-end adjustment, particularly if no productivity adjustment or earnings sharing is included in the incentive regulation mechanism. (Comments, pp. 23-24.)
- Denial of the Rate Averaging Support (RAS) universal service support element for Path A LECs. (Comments, pp. 17-18; Reply Comments, p. 5.)

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- Rejection of the proposal that rural LECs be allowed to voluntarily deaverage SLCs. (Comments, pp. 26-27; Reply Comments, p. 11.)
- Approval of the deaveraging of universal service support only to the extent consistent with the deaveraging of unbundled network element rates in the same areas. (Comments, pp. 18-19.)
- Rejection of the proposal that competitive LECs participate in the NECA pool as a condition of receipt of universal service support. (Comments, pp. 9-10.)
- Maintenance of current federal rules governing mergers and acquisitions by non-price cap carriers. (Comments, pp. 24-26; Reply Comments, pp. 13-16.)
- Rejection of the proposal to freeze jurisdictional separations factors for NECA pool members. (Comments, p. 27.)

In general, California recommends that the Commission reject the MAG proposal and initiate steps to base rural universal service support on forward looking cost, for reasons discussed in California's comments and reply comments.

Sincerely,

Loretta M. Lynch
President

c: Kathleen Q. Abernathy, FCC Commissioner
Michael J. Copps, FCC Commissioner
Kevin J. Martin, FCC Commissioner

Attachments